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UNCLAS SECTION 01 OF 02 BUCHAREST 001205

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E.O. 12958: N/A

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SUBJECT: ROMANIA PLANS TO USE THE CAPITAL MARKETS TO PAY  
PROPERTY RESTITUTION CLAIMS

1. (U) SUMMARY: The Tariceanu Government has proposed the creation of a real estate investment fund as a novel way of addressing the property restitution issue without drawing from government funds. By unlocking the value of static state holdings through transfer to a publicly traded fund, the GOR will in effect compensate claimants without impacting the budget. The GOR plans to select a financial firm by November first, preferably one with Wall Street expertise, to manage the fund and to secure its listing on a European exchange. The proposal is in response to increasing calls by the IMF for fiscal prudence and growing pressure from former property owners to settle their claims equitably. END SUMMARY

#### COMPENSATING OWNERS WHILE AVOIDING A BUDGET CRUNCH

2. (SBU) On May 16 Econoffs met with the fund's creator, Secretary of State Nicolae Ivan, who described the property

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fund as a way to simplify owner compensation in the face of a tight budget which constrains borrowing. He stated that the GOR plans to submit draft legislation on the project to the Parliament for consideration in early June. The fund will be composed of real estate holdings, foreign receivables and shares of state-owned companies, the composition of which will be determined by the GOR. The State Privatization Agency (AVAS) has stated that it will exclude non-viable companies from the list.

3. (SBU) The fund will be used to compensate those whose property was confiscated by the Romanian state during Communism. The fund will not be used, however, to settle property disputes between the Greek Catholic and Orthodox churches. Although the GOR's stated preference is for original owners to reacquire their real estate assets if at all possible, in reality this has infrequently occurred, usually when owners have taken the GOR to court. Nevertheless, Ivan emphasized that by law a current tenant of confiscated property must vacate the location within a specified time period. Only if the property has been destroyed, no longer exists, or is otherwise impossible to return will the equity fund compensate a former owner. Local authorities will make the first determination whether or not a claimant has the right for compensation through the fund. If the authority disagrees with the claim, the former property owner may opt to appear before a judge to argue the case. An original owner has the right to compensation by the fund in an amount equivalent to the property's estimated value.

#### AMBITIOUS PLAN TO BRING FUND TO MARKET

4. (SBU) The GOR plans to transfer property from state entities into the property fund within thirty days of the law's passage in Parliament. The GOR intends to hire, no later than August, a law firm with international expertise to conduct a tender offer for a fund manager. Ivan's plan involves selecting a manager by November first, and signing a binding contract with the selected firm no later than January 1, 2006. The GOR's goal is to float the fund on both the Bucharest and a yet-to-be-determined European exchange within one hundred days of contract execution. Ivan emphasized that transparency in the fund's operation is critically important and that he privately hopes that an American firm will be awarded the contract.

5. (SBU) The funds' total value will be equivalent to the value of outstanding property claims, currently \$4.5 billion, with fixed assets, such as land and forests, to be listed at book value. The GOR would tap an independent expert to conservatively value state-owned companies; Ivan expects valuations for these assets to be at or close to book value. As claims are added, the total book value of the fund will similarly increase as the GOR adds property

equivalent to the revised value. Shareholders will have the right to immediately cash out of the fund upon its launch, or may opt to hold their shares for sale at a later date. Claimants will have until January 1, 2007 to request compensation from the fund. The fund will terminate at the ten-year mark, and properties will be liquidated at that time.

16. (SBU) Secretary Of State Ivan asked Post for assistance in spreading the word about the fund's upcoming tender to interested parties, while stating his preference for Wall-Street firms with experience in real estate fund management. Ivan hopes to interview with financial publications, such as the Wall Street Journal, that will reach his target audience. Econoffs promised to raise this with Public Diplomacy. Ivan hopes that Romanians will view the fund as a safe place to invest money for retirement.

Comment

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17. (SBU) Post believes that the fund represents a creative means of compensating former property owners through available resources without damaging the budget. Many questions, however, remain unanswered, including which assets will be transferred into the fund, how the portfolio will be valued, and how claimants, most of them elderly, will receive information on how to convert shares into cash. Press reports about the program have been skeptical, possibly due to memories of the unsuccessful mass privatization program which occurred in the early 1990's. That program was criticized for its lack of transparency and absence of an education campaign to inform shareholders of their investment options and rights. In order to avoid a repeat of past mistakes, the GOR will need to compensate claimants in a transparent and equitable manner, while dispersing necessary investor information and education to shareholders. Although AVAS has announced that nonviable companies will be excluded from the portfolio, Post will closely monitor the fund's composition to ensure that it does not become a "dumping ground" for low quality assets.  
Delare